Investment Roundup

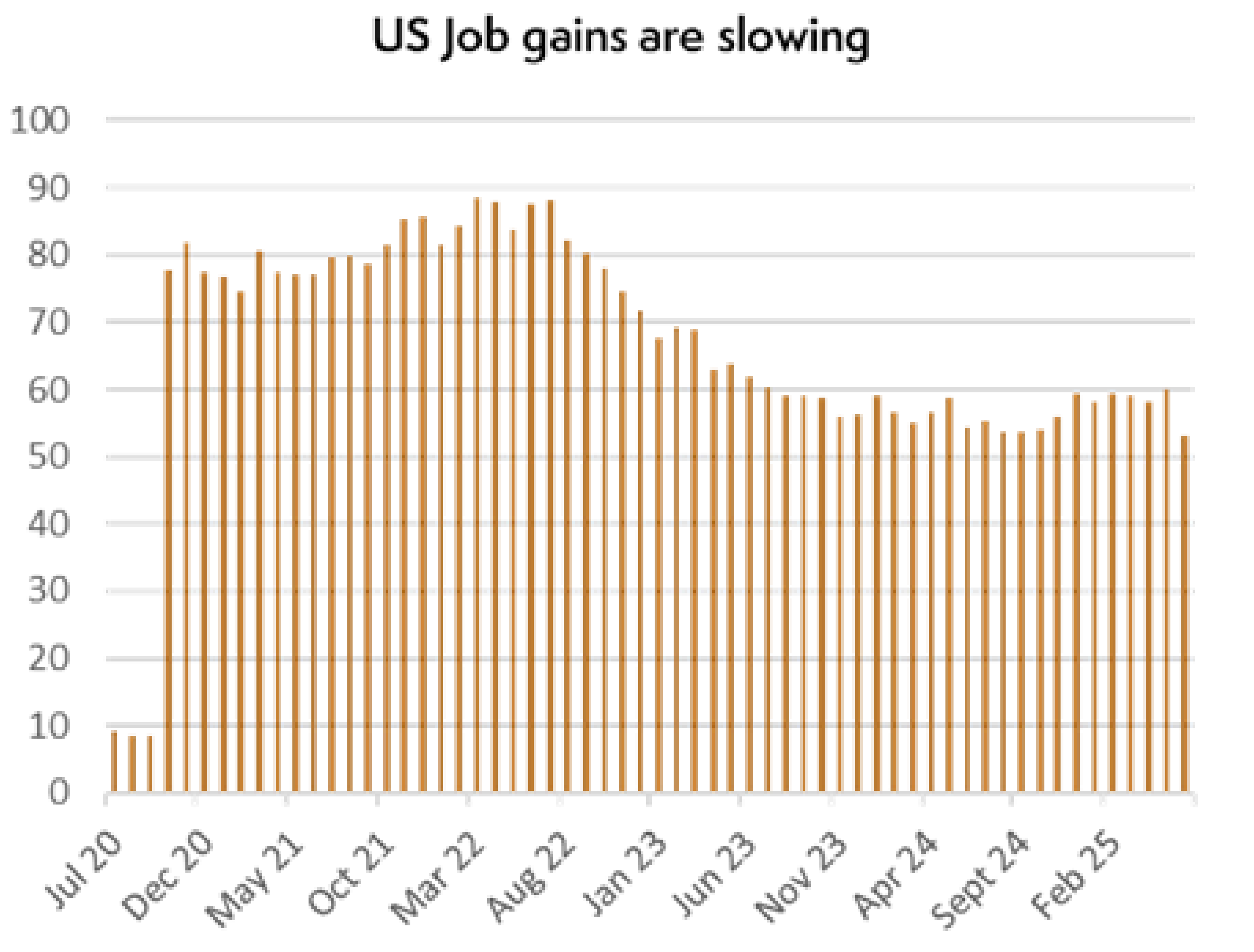
2 September 2025

RAFFLES FAMILY OFFICE

We continue to favour convex strategies, such as a barbell approach: balancing defensive positions in high-quality mega-caps and investment-grade corporate bonds with selective upside exposure through out-of-the-money call options and private equity. Gold and macro hedge funds remain effective tail-risk hedges.

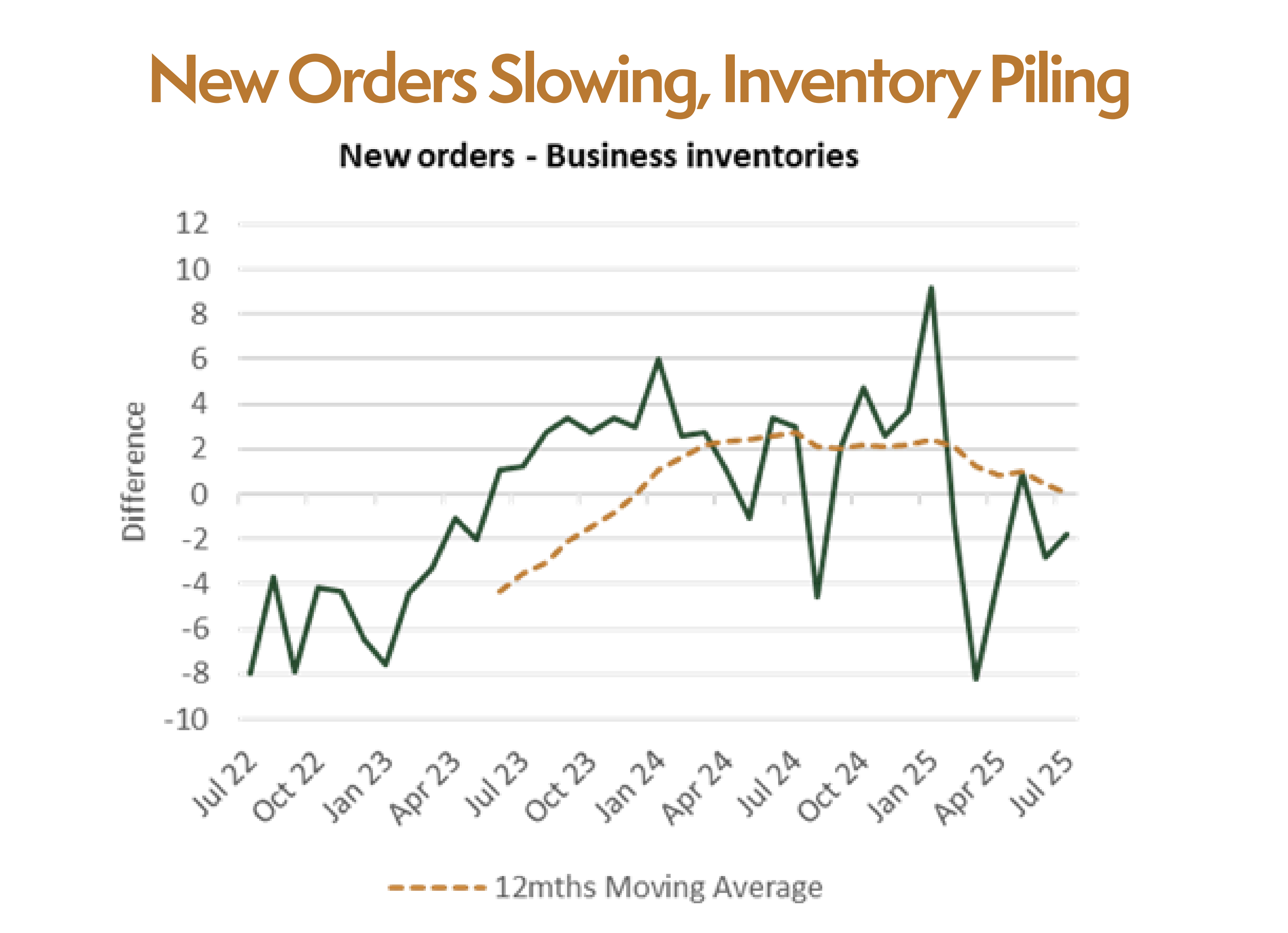
Since the start of the monetary tightening cycle in 2022, the Fed's core challenge has been balancing inflation control with the prospect of a soft landing. Two weeks ago at Jackson Hole, Fed Chair Jerome Powell underscored that the path of the Fed Funds Rate will hinge on two key factors: inflation and economic growth. Growing evidence now suggests that a rate cut in September is increasingly likely.

Slowing Labour Market



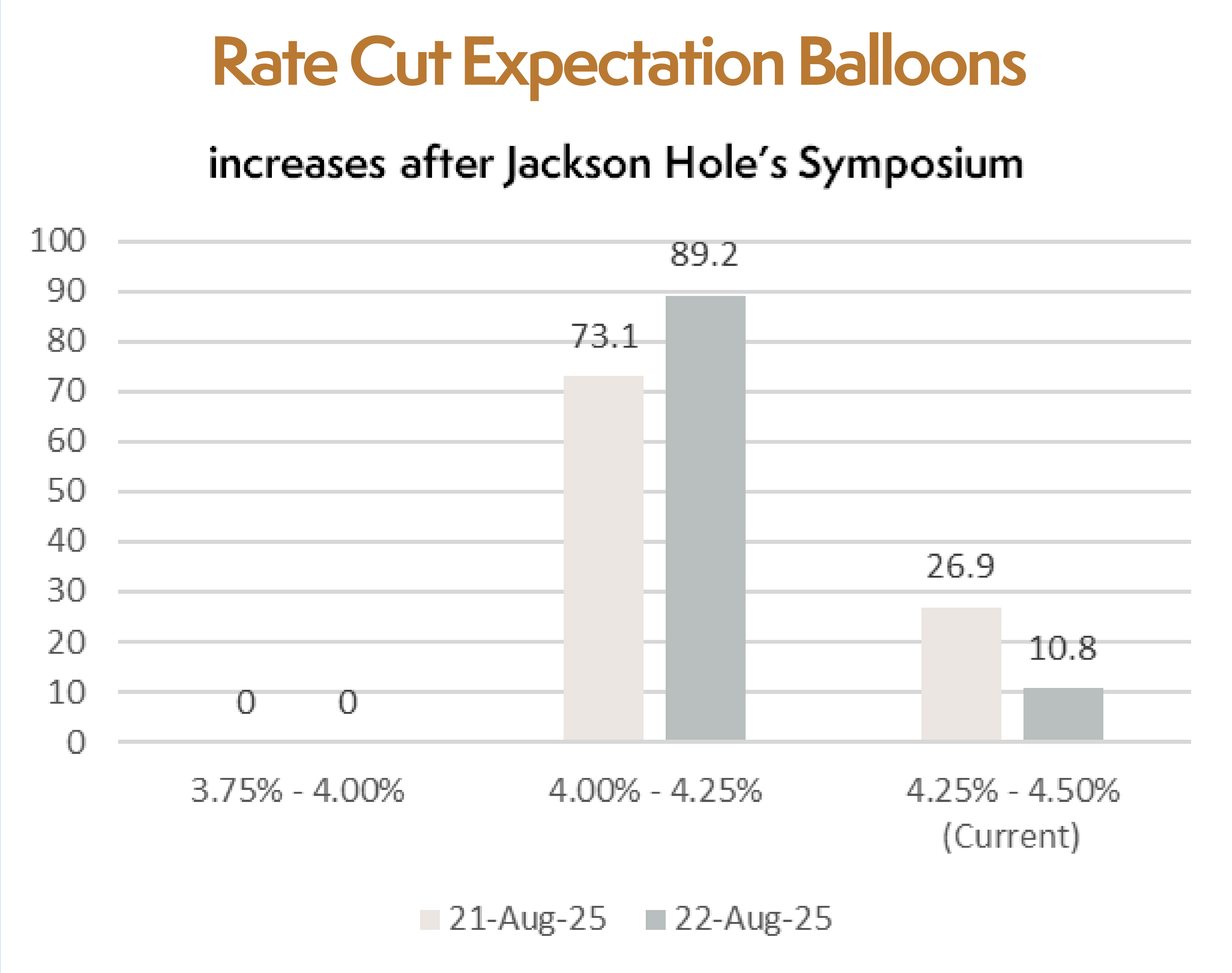
Source: Bloomberg L.P., as of 26 August 2025

Job gains have slowed sharply this year, averaging just a fifth of last year's pace. Moreover, the breadth of job creation has narrowed, with most gains concentrated in defensive sectors like Healthcare and Social Assistance—offering little reflection of cyclical economic strength. In contrast, procyclical industries such as manufacturing are clearly losing momentum. The Supreme Court's backing of former President Trump's plan to reduce the federal workforce could further weigh on labour participation rates.



Source: Bloomberg L.P., as of 26 August 2025

On the corporate front, the gap between new orders and inventories is compressing. This suggests that manufacturers face softer demand while building excess inventory—a dynamic that has historically preceded weaker economic activity. The Fed appears willing to tolerate this slowdown to safeguard growth, even at the risk of higher inflation.



Source: FedWatch, as of 22 August 2025

Markets quickly absorbed Powell's Jackson Hole message. The probability of a September rate cut has surged to nearly 90%. With policy rates likely at or near their peak, easing now seems imminent. Still, risks remain: inflation could surprise on the upside, especially as producer prices climb in sectors like trade, wholesaling, and food. Economists caution that this may reflect businesses only beginning to pass on tariff-related costs to consumers.

History shows that the performance of duration-sensitive assets varies by context. Some cycles, such as during the Global Financial Crisis and the pandemic, were reactive to shocks, while others were pre-emptive—similar to what we may see now, with a calibrated normalization of rates.

In this cycle, the S&P 500 has already risen 10% year-to-date, while gold has rallied more than 70% from its lows—both signalling confidence in the Fed's pivot and gold's strength as a hedge against uncertainty.

The policy backdrop is turning supportive for duration-sensitive assets, with markets positioned for a late-cycle environment where a soft landing is the base case. Small caps have lagged and may offer opportunities if inflation stays subdued and the easing path remains steady.